

October 29, 1997

MEDICAL CARE 1998 NETWORK ALLOCATIONS

1. **PURPOSE:** This directive provides policy and procedures for the Fiscal Year (FY) 1998 Network Allocations and the use of these allocations. The President's budget, adjusted for Congressional action, is the basis for the allocation of funds to Veterans Health Administration (VHA) field facilities.

2. **BACKGROUND:** In FY 1997 the traditional Target Allowance was replaced by the Medical Care 1997 Network Allocation. The Network Allocations were prepared at the Veterans Integrated Service Network (VISN) level on a new, prospective payment funding system called Veterans Equitable Resource Allocation (VERA). VERA will continue to be used for the FY 1998 Network Allocation.

3. **POLICY:** The Network Allocation process develops each network's funding base for the coming year. This directive describes the process and provides instructions for the use of the funds.

4. ACTION

a. Format

(1) The FY 1998 Network Allocation will be prepared by the VHA Chief Financial Officer (172). Data to populate the Network Allocation will be provided as follows:

Section I.A-F – Allocation Resource Center (ARC)

Section I.H-I – Office of Academic Affiliations

Section II - Allocation Resource Center

Section III - Chief Network Officer/Network Directors

(2) Network Allocations will be provided at the VISN level. Each VISN will establish an initial contingency reserve of at least 2.0 percent of its General Purpose allocation. Initial fiscal year Network Allocations to facilities (Facility Allocations) are at the discretion of the Networks with approval required by Headquarters. Each VISN will allocate its FY 1998 operating funds by individual facility and provide each facility specific quarterly distribution to the Resource Allocation and Execution Office (172) for input into the Automated Allotment Control System (AACS).

b. **Instructions.** The attachment to this directive provides Network Allocation line item explanations and general guidelines for their application.

THIS VHA DIRECTIVE EXPIRES SEPTEMBER 30, 1998

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5. REFERENCES

- a. VHA Supplement to MP-4, Part VII.
- b. OMB (Office of Management and Budget) Circular A-34

6. FOLLOW-UP RESPONSIBILITY: The Chief Financial Officer (17) is responsible for the contents of this directive.

7. RESCISSION: VHA Directive 97-003 is rescinded. This Directive expires September 30, 1998.

S/M. Murphy for
Kenneth W. Kizer, M.D., M.P.H.
Under Secretary for Health

Attachment

DISTRIBUTION: CO: E-mailed 11/3/97
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ATTACHMENT A

NETWORK ALLOCATION EXPLANATIONS AND GUIDELINES

1. **Fiscal Year (FY) 1998 Veterans Equitable Resource Allocation**

a. The majority (88.7 percent) of FY 1998 Medical Care appropriation dollars will be distributed to the Networks in Section 1 of the FY 1998 Network Allocation using the Veterans Equitable Resource Allocation (VERA) system.

b. There will be no revisions to the VERA system in FY 1998, i.e., funds will be allocated through VERA's six model components: Basic Care, Special Care, Labor Adjustment, Research Support, Education Support, and a Five Percent Cap Adjustment.

c. The counts of veterans that are used in the allocations are adjusted to reflect the location of their care. Each veteran's care is pro-rated among the Veterans Integrated Service Networks (VISNs) that did or are expected to participate in their care. This pro-ration technique is referred to as Pro-Rated Persons (PRPs).

d. The pool of resources that will be allocated by VERA will consist of resources for all the activities allocated on the FY 1997 Network Allocation Section 1, Section 2, and Section 3 plus a proportion of any newly-budgeted FY 1998 resources. It should be noted that these resources will not be supplemented during the year by Veterans Health Administration (VHA) Headquarters, therefore VISNs must plan accordingly.

e. The Office of the Chief Financial Officer via the Allocation Resource Center will distribute additional supportive reports in conjunction with the FY 1998 Network Allocation that will provide details for the allocation process and performance data that could be of assistance in maximizing Network resources.

f. The amount of resources devoted to the Basic and Special Care Groups will be the FY 1997 levels changed by the rate of change in the Medical Care appropriation from FY 1997 to FY 1998.

(1) The Basic Care funding will be allocated to each VISN in Section I of the FY 1998 Network Allocation using a single national price per veteran user multiplied by the count of veteran users in each VISN. Veteran users are defined as all mandatory (category A and X) users that the VISN has seen over a 3-year period of time (FY 1994, FY 1995, and FY 1996). Veteran user data was prepared by the Office of Policy, Planning and Performance.

(2) The Special Care funding resources will be allocated to each VISN in Section I of the FY 1998 Network Allocation using a single national price per special patient user multiplied by the forecasted FY 1998 count of special patient users at each VISN. Special Care patients are defined as the projected number of special patients that the VISN will care for in FY 1998 based upon historical demand from FY 1992 through FY 1996. The Office of the VHA Chief Financial Officer prepared forecasts of special patients.

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(3) As it was in FY 1997, each VISN's allocation will be adjusted in FY 1998 by a labor adjustment that represents its cost of labor relative to the national cost of labor. The labor adjustment will be a zero-sum adjustment at the national level, and is applied to a measure of labor dollars which for FY 1998 is the total FY 1996 labor dollars.

g. Research support funding for each VISN is also established using a nationally defined pool of resources and a nationally defined algorithm. Research support resources are those that were reported in the Cost Distribution Report (CDR) in FY 1996 and the research algorithm distributes resources using a national rate per Department of Veterans Affairs (VA) and non-VA funded research. VA and non-VA funded research resources were determined by the Office of Research and Development for FY 1996.

h. Education Support funding for each VISN is established using a nationally-defined pool of resources and nationally-defined algorithm. Education support resources are those that were reported in the CDR in FY 1996. The education algorithm distributes resources using a national rate per resident position. Resident positions are those positions distributed to each VISN by the Office of Academic Affiliations for the academic year 1997-1998.

i. Equipment funding (Object Class 31) is for equipment procured for existing facilities, automated data processing (ADP) requirements, and activations projects. The distribution of equipment funding is based on clinical complexity data (weighted score of 50 percent), unique patient count by Network (weighted at 25 percent), and Consolidated Memorandum Receipt (CMR) historical purchase rate as a measure of current equipment (weighted at 25 percent).

j. Non-recurring Maintenance and Repair (NRM) funding is available for 14 months beginning August 1, 1998, and includes the appropriation of Object Class 32 funds. The FY 1998 NRM funding distribution is based on a 90 percent Boeckh (square footage) index and 10 percent in the national pricing pool of funding.

2. Format of the Network Allocation

a. **Section I. General Purpose** (formerly modeled) funds are composed of Basic and Special Care (with a labor adjustment), Research, and Education support, and a 5 percent cap adjustment. Also included is the final adjustment to resident work limits as required by the Inspector General.

b. **Section II. Capital Assets** are composed of funding for equipment and NRM projects that will become capitalized assets.

c. **Section III. Travel** is composed of funds for employee travel. Section III will be provided after October 1, 1997.

3. **Medical Care Program Notes**

a. **Full-time Equivalent (FTE) Employment.** In FY 1998, FTE levels will not be assigned during the budget process. Any required accountability and control of supportable FTE will be accomplished at the VISN level. Readjustment Counseling (25), Health Professions Education Programs (26), and other programs with specific FTE are not in the Network Allocation. They will be identified in subsequent funding actions. Networks will not be assigned a personal services floor. Adequate personal services should be budgeted to support planned employment levels.

b. **Funding for Specialized Programs.** Includes programs such as Post-traumatic Stress Disorder (PTSD), substance abuse, and homeless veterans, whose workload is captured in the VERA model is included in Section 1 of the Network Allocations. A portion of the allotments provided on the Network Allocation in Section 1 will be made available to these programs. Additional funding adjustments may be accomplished during the fiscal year. Funds received after the Network Allocation, which are allocated for a specific program, must be used for that program or returned to corporate headquarters.

c. **Medical Care Cost Recovery (MCCR).** In FY 1998 the MCCR program will become part of the Medical Care appropriation. Those employees formerly journalized to the MCCR Fund will be journalized to the Medical Care appropriation. All MCCR collections will be deposited to the new Medical Care Collections Fund (MCCF) and beginning October 1, 1997, will be available for transfer to the Medical Care appropriation, to remain available until expended. Each VISN will receive its proportionate share of all such funds based on its percentage share of total collections. Expenses associated with billings and collections will be charged to the Medical Care appropriation.

d. **Capital Assets.** All funds identified on the FY 1998 Network Allocation for Equipment and NRM are for Object Class 31 and Object Class 32 capitalized assets, as defined in Office of Management and Budget (OMB) Circular No. A-11. As recommended in the Office of the Inspector General (OIG) Report, "Audit VHA Major Medical Equipment Acquisition (Number 5R4-E01-120)" dated September 29, 1995, VISNs will be responsible for informing management at VA medical facilities of the availability of 14-month funds and will develop a schedule detailing the release of funds for equipment acquisition. While the OIG recommendation is equipment-specific, the underlying concept, of encouraging the facilities to take advantage of the fourteen-month time frame for the planning and purchasing of equipment, applies to both object classes.

(1) The allocations for Object Class 31 equipment include funding for equipment procured for existing facilities, ADP requirements, and activations projects. Allocations provided for equipment will include both 1 and 2-year funds.

(2) All allocations provided for the NRM program in the FY 1998 Network Allocation are 2-year Medical Care appropriation Object Class 32 funds that will be available for fourteen months beginning August 1, 1998. VISNs must manage lease hold improvements (build out),

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emergencies, interim projects that arise during the period, and changes or modifications to approved projects and should establish a contingency or “risk pool” for these purposes. VISNs should establish NRM funding policy and procedures such as requiring facilities to report project savings to VISNs for possible redistribution. Use of savings will require prior VISN approval and any change in the scope of a project, project cancellation, or project substitution must be approved by the VISN.

e. **The Health Professions Education Programs (Program 26).** The Health Professions Education Programs (Program 26) include Medical and Dental Residents, Specialized Fellows, Veterans Administration Learning Opportunity Residencies (VALOR) and Associated Health Trainees. The Office of Academic Affiliations will allocate facility specific FTE and funding. If trainee positions cannot be filled, local officials in conjunction with Fiscal Service should notify the Office of Academic Affiliations (144), so resources can be redistributed according to national needs. Trainee positions may not be switched between specialties without prior approval of Academic Affiliations.

f. **The Employee Education Programs (Program 27).** The Employee Education Programs (Program 27) include Administrative Trainees and funds for centrally directed educational activities.

(1) Administrative Trainee positions, FTE, and funding will be allocated to specific facilities by the Office of Employee Education.

(2) If trainee positions cannot be filled, local officials in conjunction with Fiscal Service should notify the Office of Employee Education (102), so that resources can be redistributed to meet system-wide needs.

(3) The funding for facility-directed employee continuing education travel and other costs, tuition support and tuition reimbursement has been distributed in the General Purpose and Travel sections of the Network Allocation.

(4) Funds for participant travel to centrally-directed educational activities are included in the Travel section of the Network Allocation this year. Funds for VA faculty travel for these activities will continue to be funded by Transfers of Disbursing Authority.

g. **Resident Work Limits (RWL).** Adjustments of funding and FTE for the RWL restructuring are identified on lines H through J of Section I. A. of the Network Allocation.

h. **Non-VA Workload Programs.** Non-VA workload programs include the State Home (Program 24), Community Nursing Home Care (Program 24), Fee Medical, Fee Dental, and Contract Hospital Programs.

(1) Fee Medical, Fee Dental, Contract Hospital, and Community Nursing Home Care, while funded as part of the model, are still considered non-VA workload programs.

(2) The State Home Program will continue to be funded through Specific Purpose funds and restrictions apply to the funding and workload. If the actual census for any state home category varies by a substantial amount from the assigned level the program office should be contacted to make the appropriate adjustments to workload and funding levels.

i. Employee Travel (Limitation .007)

(1) Facility Regular. This allocation is provided to cover normal facility directed employee travel requirements.

(2) All Other. These allocations are provided for specifically identified employee travel such as Readjustment Counseling, etc.

j. **Prosthetics**. All VHA Headquarters allocated funds for prosthetics will be provided as Specific Purpose funding. Funding for Automatic Implantable Cardiovascular Defibrillators (AICD) has been decentralized and is now part of the General Purpose funds in VERA. General Purpose funds will be used to fund the prosthetics account when specific Purpose Funds prove to be inadequate. Prosthetic funding requirements will continue to be monitored by the Prosthetics and Sensory Aids Service (117C) at the individual facility and/or VISN levels.

k. **Leases**. In FY 1998 only the “Mega Leases” for Anchorage, Columbus, Honolulu, Las Vegas, Manila, the Northern California System of Clinics, and field-based National Programs will be supported by VHA Headquarters. All other lease expenses, including leasehold improvements (build-outs), will be supported at the VISN level.

l. Items not Included in Network Allocation. Allocations included in Sections I through III reflect the FY 1998 allocation for all Medical Care requirements except the following:

(1) Allocations for Reimbursable Costs collected by VA Facilities. As indicated in the Office of Management and Budget (OMB) Circular A-34, funds must be collected from non-Federal sources during the fiscal year the receivable is established to receive credit for reimbursement. This has been modified by Public Law (Pub. L.) 104-262 which says: collections for the sharing of medical resources, Title 38 United States Code 8153 and TRICARE intermediaries are budgetary resources in the year they are collected, regardless of when the service was performed. Facilities will receive funding on a quarterly basis for those actual earned and/or collected reimbursable costs recorded in the Financial Management system (FMS) Standard General Ledger accounts 425F (Federal Receivable-Reimbursements), 425G (Federal Collections-Reimbursements), and 425P (Non-Federal Collections-Reimbursements). Reports Control Symbol (RCS) 10-0027, the Quarterly Report of Need/Excesses, will not be used after FY 1997.

(2) Replenishment for Collections. Replenishment for collections received from employees for quarters will be funded quarterly based upon collections recorded in FMS.

(3) Permanent Change of Station (PCS). Effective with FY 1997, permanent change of station funding has been decentralized to the field and is included in the Network Allocation. The only VHA Headquarters funding for PCS that will be provided is for senior management of

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field based national programs and resident engineers. All other PCS expenses for field-based national programs will be absorbed within the funds available to the program activity. Funds will be provided in accordance with VA and Federal Travel Regulations. Requests for funding will include the program name, incumbent's name, position being filled, reporting date, and itemized costs for salary, all other, and travel.